

Served: March 20, 2000



UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 16th day of March, 2000

Essential Air Service at:

ATKA AND NIKOLSKI, ALASKA

Under 49 U.S.C. 41731 *et seq.*

Docket OST 95-363 - 20

ORDER TENTATIVELY SELECTING CARRIER

SUMMARY

By this order we are tentatively reselecting Peninsula Airways, Inc., to provide subsidized essential air service at Atka and Umnak Island (Nikolski), Alaska, a new two-year period from December 1, 1999, through November 30, 2001. The annual rates are \$156,299 at Atka and \$45,033 at Nikolski.

Background

Under our normal procedures when nearing the end of a subsidy rate term, we contact the incumbent carrier to determine whether it is interested in continuing its service and whether it will continue to require subsidy. We usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting it for a new rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order; if any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited Peninsula to submit proposals for the continuation of its essential air service at the Atka and Nikolski communities.

Carrier Proposal

In response to our request, Peninsula has submitted a new, two-year service/subsidy proposal for service between both communities and Dutch Harbor. At Atka, the carrier proposes to provide four scheduled and one flagstop round trips a week on a nonstop basis with 9-seat Piper T-1040 equipment. It requests \$156,299 annually for

this service. At Nikolski, the carrier proposes to provide two nonstop round trips a week with Piper T-1040 aircraft. It requests \$45,033 annually for this service. The rates and service would be effective from December 1, 1999, through November 30, 2001.

Decision

Essential air service for Atka is set at one round trip per week to Dutch Harbor, and two round trips per week at Nikolski. The level of service that Peninsula is proposing at Atka is significantly more than that and has in fact increased from the four round trips per week we selected last time. However, the additional service is required to accommodate historical traffic. The carrier has informed us that the Piper T-1040 it operates over the 340 mile Dutch Harbor-Atka segment has a payload of only 1,400 pounds and that given the directional imbalance of mail and freight the plane frequently leaves full from Dutch Harbor. We find that the large volume and directionality of mail at Atka require more service so that traffic can be accommodated outbound from Dutch Harbor to Atka. In order to give the carrier and community some scheduling flexibility, we have agreed to provide subsidy for one additional round trip per week operated on a flagstop basis. In other words, if there is sufficient traffic in any week, the carrier may operate and be paid for that fifth flagstop round trip; if there is not sufficient traffic, Peninsula may choose not to fly it.

The amount of subsidy requested by Peninsula has increased dramatically from the \$9,000 rate set two years ago by Order 98-3-4. This is largely a result of two factors. First, Peninsula had only recently acquired the Piper T-1040 when we first selected that aircraft type two years ago and its operating expenses were significantly understated compared to more recent financial data. Also, the expenses of operating a fifth round trip are fully factored into the costs of Peninsula's proposal on a pro-rata basis but revenues are not. We find this reasonable, because the Department's first responsibility is to ensure that essential air service is provided. Moreover, we have made the fifth round trip a flagstop, so we do not expect Peninsula to operate all five round trips a week each and every week. Consistent with longstanding program policy, Peninsula will only be paid for flights actually operated. Thus, during weeks when Peninsula operates less than the five round trip per week subsidy ceiling, the rate will be adjusted automatically for the reduced service.

At Nikolski, the rate has decreased significantly from that previously agreed to. Traffic has increased significantly. In addition, Peninsula is now proposing to operate a Piper T-1040 at Nikolski, instead of the slower Grumman Goose it was previously selected to operate. While the unit operating costs of each aircraft are approximately equal, the T-1040 is almost 20 percent faster than the Grumman Goose, and this saving in time is passed through proportionately to the subsidy rate at Nikolski.

We have reviewed Peninsula's proposals at both Atka and Nikolski as well as the communities' traffic history and find that the service levels are appropriate. We also

find that Peninsula's service has been reliable and its proposed subsidies are reasonable.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. Peninsula was found fit to provide scheduled passenger service by Order 98-3-5, March 3, 1998, when we selected it to provide subsidized service at the Kodiak bush. The Department has routinely monitored the carrier's continuing fitness, and based on our review of its most recent submissions, we find Peninsula continues to have available adequate financial and managerial resources to maintain quality service at Atka and Nikolski, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Peninsula remains fit. Peninsula has experience providing essential air service at the Atka and Nikolski, and, based on its operating record, we find that the carrier continues to be fit to provide the essential air transportation at issue in this case.

Objections or Proposals

As usual, we will allow interested parties 20 days to object to our decision and/or to file competing proposals. If not timely objections or competing proposals are filed this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff before we seek final community comments. We will give full consideration to all proposals that are timely filed.

If no timely objections or competing proposals are filed, this order will automatically become final. In order to assist interested carriers in developing traffic and revenue projections for their service proposals, we have summarized the historical origin-destination traffic for the communities by quarter and direction in Appendix D.

Service History and Traffic Data

Peninsula has provided subsidized essential air service at these communities for a number of years. Before that time, MarkAir Express provided the service. In order to assist carriers in making their passenger and revenue forecasts, we have shown Peninsula's traffic for Atka and Nikolski in Appendix D.

Procedures for Filing Replacement Proposals

For interested carriers unfamiliar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f), and discusses in detail the process of requesting proposals, conducting reviews of applicants, and selecting a replacement carrier. The second is an evidence request containing an explanatory statement, a copy of Part 204 of our regulations (14 CFR 204), and schedules setting forth our recommended form for submitting data required for calculating compensation and determining the financial and operational ability of applicants to provide reliable essential air service. (Section 204.4 describes the fitness information required of all applicants for authority to provide essential air service.) Applicant carriers that have already submitted this information in another case need only resubmit it if a substantial change has occurred. However, if there are more recent data or if there have been any changes to the information on file, carriers should provide updates of those information elements. Interested carriers that need to obtain copies of these documents may contact the Office of Aviation Analysis at (202) 366-1053.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.¹ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

Community and State Comments

If we receive competing proposals, the communities and State are welcome to submit comments on service proposals at any time. Early in the proceeding, comments on

¹ The regulations applicable to each of these three areas are (1) 49 CFR Part 20, New Restrictions of Lobbying, implementing title 31, United States Code, section 1352, entitled "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants), implementing the Drug-Free Workplace Act of 1988; and (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation -- Effectuation of Title VI of the Civil Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the Basis of Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

the proposals' strengths and weaknesses would be particularly helpful, and the civic parties may also express a preference for a particular carrier, if they choose. In any event, after conducting rate conferences with all applicants, we will provide a summary of the conference results to the civic parties and ask them to file their final comments.²

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department tentatively reselects Peninsula Airways, Inc., to provide essential air service at Atka and Umnak Island (Nikolski), Alaska, from December 1, 1999, through November 30, 2001;
2. The Department sets the final rate of compensation for Peninsula Airways, Inc., for the provision of essential air service at Atka, Alaska, at \$156,299 per year, as described in Appendix C-1, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$300.58;³
3. The Department sets the final rate of compensation for Peninsula Airways, Inc., for the provision of essential air service at Nikolski, Alaska, at \$45,033 per year, as described in Appendix C-2, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$216.50;⁴
4. We direct Peninsula Airways to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

² In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service as proposed.

³ See Appendix C-1 for calculation.

⁴ See Appendix C-2 for calculation.

5. We find that Peninsula continues to be fit, willing and able to operate as an air carrier and capable of providing reliable essential air service at Atka and Nikolski, Alaska;
6. We direct Peninsula and any other interested persons having objections to the selection of Peninsula to provide essential air service as described in the order at the rates set forth in paragraphs (2) and (3), to file such objections or competing service proposals no later than 20 days from the date of service of this order;⁵
7. If we receive objections or competing proposals within the 20-day period, Peninsula will be compensated at the subsidy rate set forth in ordering paragraph (2) and (3), above, as a final rate until all objections are resolved;
8. We will afford full consideration to the matters and issues raised in any timely and properly filed objections and service proposals before we take further action.⁶ If no objections or competing service proposals are filed, all further procedural steps will be deemed waived and this order shall become effective on the twenty-first day after its service date;
9. This docket will remain open until further order of the Department; and
10. The Department will serve copies of this order on the Governor of Alaska, the Alaska Department of Transportation and Public Facilities, the carriers listed in Appendix E, and Peninsula Airways, Inc.,

By:

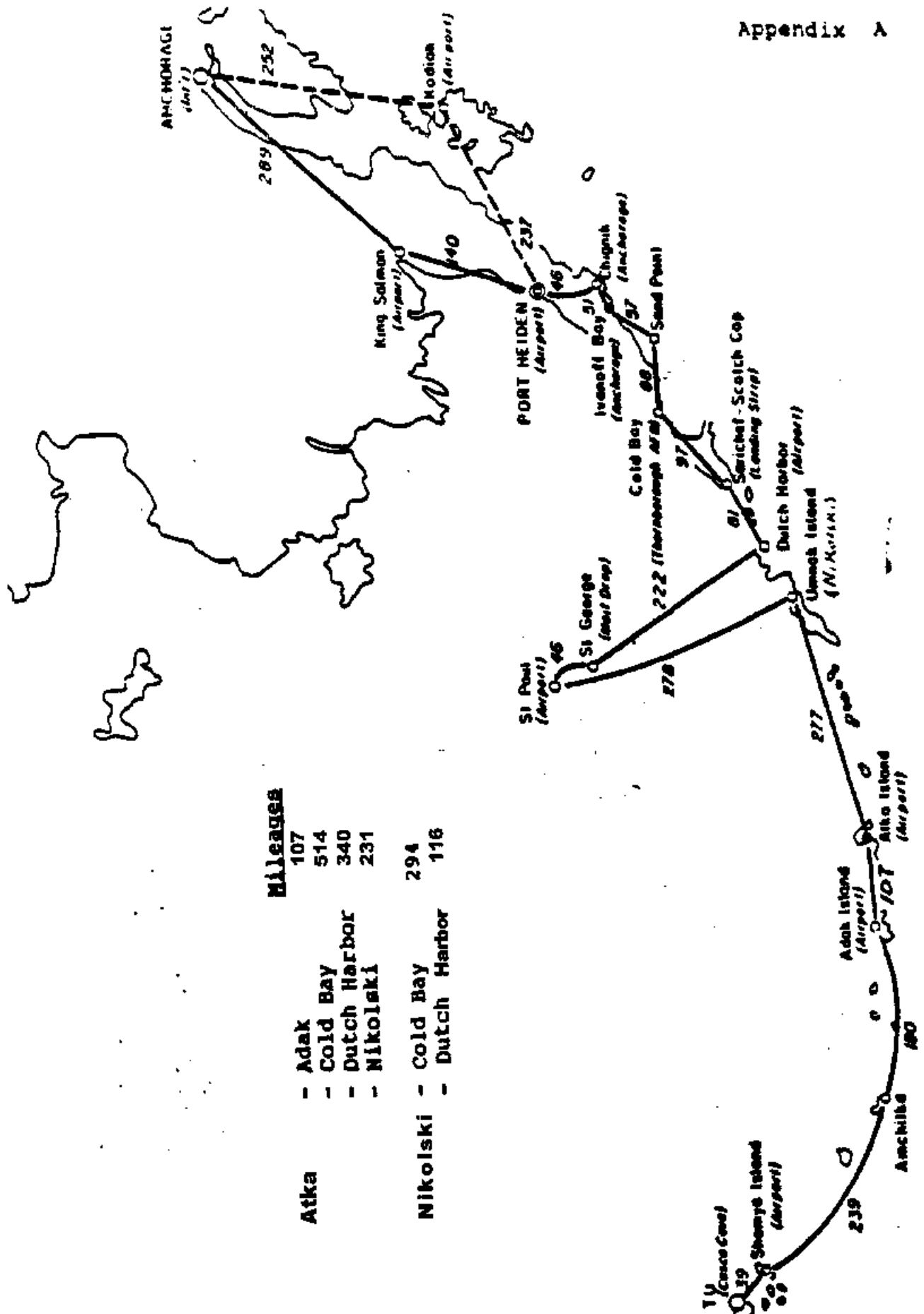
A. Bradley Mims
Deputy Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web
<http://dms.dot.gov>*

⁵ Objections should be filed with the Documentary Services Division, SVC-121.30, Room PL401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Proposals to provide essential air service should be filed with the Chief, EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, at the same address. Questions regarding filings in response to this order may be directed to Kevin J. Adams at (202) 366-1047.

⁶ Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.



Mileages

Atka	- Adak	107
	- Cold Bay	514
	- Dutch Harbor	340
	- Nikolski	231
Nikolski	- Cold Bay	294
	- Dutch Harbor	116

Appendix B

Peninsula Airways' Annual Subsidy Need at Atka and Nikolski, Alaska, Docket OST-95-363

	5 r.t./week <u>Atka</u>	2 r.t./week <u>Nikolski</u>
Aircraft Type	Piper T-1040	Piper T-1040
Block Hours	832 1/	166 6/
Weighted Departures	1,950 2/	780
Passengers	\$171,713 3/	\$36,117 7/
Mail	\$375,675 4/	\$58,889 8/
<u>Cargo</u>	<u>\$17,241 5/</u>	<u>\$12,710 9/</u>
Total Revenue	\$564,629	\$107,716
Flying Operations @ \$121.09/hr.	\$100,747	\$20,101
Fuel & Oil @ \$133.04/hr.	\$110,689	\$22,085
Other @ \$49.84/hr.	\$41,467	\$8,273
Maintenance @ \$179.11/hr.	\$149,020	\$29,732
<u>Depreciation @ \$98.38/hr.</u>	<u>\$81,852</u>	<u>\$16,331</u>
Direct Expense	\$483,775	\$96,522
Traffic related @ 12.46% of revenue	\$70,353	\$13,421
Departure related @ \$20.35/wtd.dep.	\$39,683	\$15,873
<u>Capacity related @ 11.69%</u>	<u>\$69,417</u>	<u>\$14,708</u>
Indirect Expense 3/	\$179,453	\$44,002
Total Operating Expense	\$663,228	\$140,524
Return at 5%	\$33,161	\$7,026
<u>Interest @ 3.7%</u>	<u>\$24,539</u>	<u>\$5,199</u>
Total Economic Cost	\$720,928	\$152,749
Annual Subsidy Need	\$156,299	\$45,033

1/ AKB-DUT: 1.6 hrs./flt. x 10 flts/week x 52 weeks = 832 hours.

2/ AKB-DUT: 10 flts/week x 3.75 wt./flt. x 52 weeks = 1,950 wtd. deps.

3/ 1,070 passengers x \$160.33 = \$171,713.

4/ \$2.05478/pound x 182,830 pounds = \$375,675

5/ \$.65/pound x 26,525 pounds = \$17,241.

6/ IKO-DUT: 4 flts/week x .8 hour/flight x 52 weeks = 166 hours.

7/ IKO-DUT: 4 flts/week x 3.75 wt./flt. x 52 weeks = 780 wtd. deps.

7/ 425 passengers x \$84.98 = \$36,117.

8/ \$.93763/pound x 62,806 = \$58,889.

9/ 21,543 pounds x \$.59 = \$12,710.

Peninsula, Essential Air Service to be Provided to Atka, Alaska
Docket OST-95-363

Effective Period: December 1, 1999, through November 30, 2001.

Service: Four scheduled and one flagstop round trip each week. All service operated on a nonstop basis to Dutch Harbor. Charter service is not compensable.

Aircraft: Piper T-1040--7seats or Piper Navajo--6 seats.¹

Rate per Flight: \$300.58²

Weekly Ceiling: \$3,005.80³

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ If Peninsula substitutes a Piper Navajo, for payout purposes we would recognize 6 seats, i.e., we would pay 6/7^{ths} of the Piper T-1040 rate per flight. Additional Peninsula flights could be operated up to the ceiling.

² Annual compensation of \$156,299 divided by the estimated annual completed flights. 10 flights each way each week x 52 weeks = 520 total.

³ Subsidy rate per flight of \$300.58 multiplied by 10 flights each way per week.

Peninsula, Essential Air Service to be Provided to Nikolski, Alaska
Docket OST-95-363

Effective Period: December 1, 1999, through November 30, 2001.

Scheduled Service: Two nonstop round trips each week to Dutch Harbor. Charter service is not compensable.

Aircraft: Piper T-1040--7seats or Piper Navajo--6 seats. ¹

Rate per Flight: \$216.50 ²

Weekly Ceiling: \$866.00 ³

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

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¹ If Peninsula substitutes a Piper Navajo, for payout purposes we would recognize 6 seats, i.e., we would pay 6/7th of the Piper T-1040 rate per flight. Additional Peninsula flights could be operated up to the ceiling.

² Annual compensation of \$45,033 divided by the estimated annual completed flights, 4 flights each week x 52 weeks = 208 total.

³ Subsidy rate per flight of \$216.50 multiplied by 4 flights each way per week.

Appendix D

Historical Traffic at Atka and Nikolski, Alaska

	Atka to Dutch Harbor			Dutch Harbor to Atka			Total, Both Directions		
	Psgs.	Freight Pounds	Mail Pounds	Psgs.	Freight Pounds	Mail Pounds	Psgs.	Freight Pounds	Mail Pounds
QE 12/31/9	66	0	2,476	65	1,955	48,861	131	1,955	51,337
QE 3/31/97	113	55	2,195	121	5,501	42,163	234	5,556	44,358
QE 6/30/97	116	375	5,280	114	5,787	33,031	230	6,162	38,311
<u>QE 9/30/97</u>	<u>123</u>	<u>60</u>	<u>3,900</u>	<u>134</u>	<u>15,179</u>	<u>56,659</u>	<u>257</u>	<u>15,239</u>	<u>60,559</u>
YE 9/30/97	418	490	13,851	434	28,422	180,714	852	28,912	194,565
QE 12/31/9	100	210	2,811	93	6,725	43,609	193	6,935	46,420
QE 3/31/98	112	15	2,149	101	4,661	39,103	213	4,676	41,252
QE 6/30/98	122	100	2,089	133	8,368	38,797	255	8,468	40,886
<u>QE 9/30/98</u>	<u>103</u>	<u>670</u>	<u>3,719</u>	<u>107</u>	<u>7,437</u>	<u>45,113</u>	<u>210</u>	<u>8,107</u>	<u>48,832</u>
YE 9/30/98	437	995	10,768	434	27,191	166,622	871	28,186	177,390
QE 12/31/9	95	218	1,950	90	5,995	35,475	185	6,213	37,425
QE 3/31/99	60	111	2,140	58	3,844	29,259	118	3,955	31,399
QE 6/30/99	110	0	2,912	104	4,328	36,200	214	4,328	39,112
<u>QE 9/30/99</u>	<u>124</u>	<u>150</u>	<u>3,441</u>	<u>124</u>	<u>6,574</u>	<u>51,138</u>	<u>248</u>	<u>6,724</u>	<u>54,579</u>
YE 9/30/99	389	479	10,443	376	20,741	152,072	765	21,220	162,515
	Nikolski to Dutch Harbor			Dutch Harbor to Nikolski			Total, Both Directions		
	Psgs.	Freight Pounds	Mail Pounds	Psgs.	Freight Pounds	Mail Pounds	Psgs.	Freight Pounds	Mail Pounds
QE 12/31/9	33	0	1,743	36	2,372	14,765	69	2,372	16,508
QE 3/31/97	25	149	1,007	27	1,324	13,522	52	1,473	14,529
QE 6/30/97	50	0	8,380	30	2,574	9,758	80	2,574	18,138
<u>QE 9/30/97</u>	<u>40</u>	<u>430</u>	<u>963</u>	<u>56</u>	<u>4,803</u>	<u>13,117</u>	<u>96</u>	<u>5,233</u>	<u>14,080</u>
YE 9/30/97	148	579	12,093	149	11,073	51,162	297	11,652	63,255
QE 12/31/9	37	80	739	32	5,532	12,959	55	4,532	2,045
QE 3/31/98	25	60	860	30	4,472	1,185	133	4,408	17,660
QE 6/30/98	66	0	2,712	67	4,408	14,948	144	5,919	26,726
<u>QE 9/30/98</u>	<u>79</u>	<u>70</u>	<u>6,844</u>	<u>65</u>	<u>5,849</u>	<u>19,882</u>	<u>401</u>	<u>20,471</u>	<u>60,129</u>
YE 9/30/98	207	210	11,155	194	20,261	48,974	733	35,330	106,560
QE 12/31/9	52	0	960	57	4,396	16,676	109	4,396	17,636
QE 3/31/99	28	0	918	26	5,972	18,627	54	5,972	19,545
QE 6/30/99	80	0	5,174	81	2,948	8,600	161	2,948	13,774
<u>QE 9/30/99</u>	<u>47</u>	<u>0</u>	<u>821</u>	<u>54</u>	<u>8,227</u>	<u>11,030</u>	<u>101</u>	<u>8,227</u>	<u>11,851</u>
YE 9/30/99	207	0	7,873	218	21,543	54,933	425	21,543	62,806